

STATE OF ARKANSAS  
SECURITIES DEPARTMENT

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IN THE MATTER OF

SATELLITE PARTNERS, INC.,  
VIRTUAL VEGAS, LLC,  
RON BENSON, RICHARD HINES,  
STUART SMITH, RON CARTER  
and ALL PERSONS EMPLOYED BY OR OTHERWISE  
AFFILIATED WITH THAT ENTITY OR THOSE PERSONS

No. 00-10-S

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CEASE AND DESIST ORDER

The Staff of the Arkansas Securities Department (the Staff) has received information and has in its possession certain evidence which indicates that VIRTUAL VEGAS, L.L.C., SATELLITE PARTNERS, INC., RON BENSON, RICHARD HINES, STUART SMITH and RON CARTER have violated provisions of the Arkansas Securities Act (the Act), codified at Ark. Code Ann. §§ 23-42-101, *et seq.* (Repl. 1994), as well as various Rules of the Arkansas Securities Commissioner (the Rules).

FINDINGS OF FACT

An ongoing investigation has revealed the following facts:

1. Satellite Partners, Inc. (Satellite), purports to be a corporation formed under the laws of the state of Nevada with its principal offices located at 8665 Wilshire Blvd., Suite 300, Beverly Hills, CA 90211.

2. Virtual Vegas, LLC (Virtual), purports to be a limited liability company organized in and under the laws of the state of Nevada with its principal office located at 6447 Silver Dawn Lane, Las Vegas, Nevada 89118.
3. Ron Benson (Benson) is an employee of and salesman for Satellite. He is not registered as an agent for a broker-dealer, the issuer or in any other capacity in the securities industry in Arkansas.
4. Richard Hines is the president and chief operating officer of Satellite. He is not registered as an agent for a broker-dealer, the issuer or in any other capacity in the securities industry in Arkansas.
5. Stuart Smith (Smith) is an employee of and salesman for Satellite. He is not registered as an agent for a broker-dealer, the issuer or in any other capacity in the securities industry in Arkansas.
6. Ron Carter (Carter) is an employee of and salesman for Satellite. He is not registered as an agent for a broker-dealer, the issuer or in any other capacity in the securities industry in Arkansas.
7. Sometime during the months of December, 1999, or January, 2000, an Arkansas resident (Prospect), was contacted by Benson by telephone and told about Virtual. Benson caused a packet of printed sales materials to be sent to Prospect. In the packet were several documents, including a booklet entitled "Membership Documents." Virtual was described as a limited liability company organized under the laws of Nevada "to create and exploit virtual online, interactive Las Vegas style gaming related activities." For sale were membership

units (units) for \$5,000 each. The minimum purchase was two units. These units were described as “not a passive investment.” Although investors were not required to possess “specific knowledge and expertise in the day to day operation of the business,” investors “should have such knowledge and experience in general business, investment and/or financial affairs as to intelligently exercise their management and voting rights,” and “further, each Member [investor] is requested to participate in the management” of Virtual “by serving on one or more committees established” by the investors. A list of committees followed. A confidential questionnaire was included in the event Virtual would be “required to establish the availability of an exemption for the offering requirements of the Securities Act of 1933.” To execute the Subscription Agreement, the last document included in this booklet, an investor would have to affirm a statement printed in capital letters that the investor “will be a member in a limited liability company and therefore my interest herein is not to be considered a security. This interest has not been registered with the Securities and Exchange Commission or any state securities department . . .”

8. On 21 January 2000, Benson telephoned Prospect to discuss the printed materials. In reading the printed materials and speaking to Benson, Prospect learned that Satellite was selling membership units in Virtual. Hines took over the conversation when Prospect asked about Satellite’s past and its “track record.” Hines told Prospect that Satellite was formed in 1995. Satellite had worked with an unnamed company that helped people with bad credit obtain prepaid telephone service in their homes, Hines said, and had worked with another company Hines said helped people who were “credit impaired” obtain prepaid internet service.

Satellite's big success, Hines said, had been a company called Tel Com Plus. According to Hines, Tel Com Plus was at the time of this call one of the major telephone companies in America. It was nationwide, Hines said, with a presence in "over twenty states." Hines said nothing about the requirements set out in the printed materials sent to Prospect that investors would have to serve on committees, and nothing was said that could reasonably be construed to mean that an investment in Virtual was anything but a passive investment.

9. During the 21 January 2000 telephone call, Hines described Virtual as a "virtual cyberspace Vegas," but without gambling. Instead of gambling, Hines said participants would be able to play a game that is very much like Monopoly for points instead of money. After participants won a requisite number of points, they would be invited to go to Las Vegas and play a master game or tournament. Once the game caught on, Hines said, Virtual could also expect advertising income from major hotels, airlines and automobile rental agencies. There was a good possibility the company would go public with an initial public offering, Hines said. At that point, the investors would have several options, Hines said, including keeping Virtual "as a cash cow, continuing to pay 105% return every year" or sell out to a major company such as Yahoo or America Online.
10. Prospect and Hines had a follow up telephone conversation on 1 February 2000. Prospect started the conversation by saying that he had not been able to find any stock for sale in Tel Com Plus. Hines said that Prospect would not be able to find any stock right then because "it is a quiet time right now between purchase and IPO" and that Prospect "probably won't be able to buy any stock until the second offering." Hines told Prospect that the company was

United States Telecommunications, doing business as Tel Com Plus, and that its stock symbol was UST. Acutally, the stock symbol, UST, is the New York Stock Exchange symbol for UST, Inc., which through its subsidiaries, United States Tobacco Company and others, manufactures and sells smokeless tobacco products, wines and craft beers and premium cigars. According to a consent order entered by the Florida Department of Banking and Finance discussed, *infra*, at ¶ 13(h), United States Telecommunications, Inc. is a Florida corporation that is the successor in interest to all the limited liability companies with some variation of the name, Tel Com Plus. No registered stock offering of that company or a proof of exemption from the registration requirements of the Act has been found in the Staff's investigation.

11. When Prospect indicated hesitation in investing in a start up company, Hines used Tel Com Plus as an example of a start up company that was successful. When Prospect asked, "is there anything about Satellite Partners or Virtual Vegas or anything that I should know that would give me some kind of pause," Hines did not reveal all the regulatory actions against Tel Com Plus or Satellite, as discussed in ¶ 13, *infra*. Instead, Hines stated, "Nothing that I can think of right offhand," and "we have tried to make sure, especially with people we have aligned ourselves with, that there is virtually no risk of loss . . . But we do not see any serious risk of failure." Hines told Prospect that Satellite was going to manage Virtual for the first year of its existence, after which the investors, which are referred to as members, would vote on whether to keep Satellite as the managing entity or select another manager. Hines stated that he thought there would be a total of around 150 investors in Virtual, even though the deal

was set up for 200, because one investor had bought around 50 of the 200 units. Again, nothing was said about the requirement found in the printed materials sent to Prospect about having to serve on a committee, and nothing was said that could reasonably be construed to mean that an investment in Virtual was anything but a passive investment.

12. Apparently not aware that an investment in Virtual had been solicited from Prospect before, Smith telephoned Prospect on 7 April 2000 offering membership units in Virtual and caused another packet of printed sales materials to be sent to Prospect on 12 April 2000. Prospect realized when the printed materials arrived that they were the same materials that had earlier been sent to him. On 17 April 2000 Carter telephoned Prospect about these materials and offered Prospect membership units in Virtual. When told that Prospect had already been offered these materials, Carter expressed surprise and desisted.
13. None of the respondents, and especially Hines, said anything about the significant regulatory history of Tel Com Plus or Satellite. None of the following actions against Tel Com Plus in its many permutations or Satellite was disclosed to Prospect:
  - a) On 28 January 1998 the Securities Commissioner of North Dakota issued a cease and desist order against Tel Com Plus Miami, L.L.C., Tel Com Plus East, Tel Com Plus, Inc., and others ordering the respondents to cease and desist selling securities in the form of investment contracts that were not registered by persons not registered to sell securities, making fraudulent statements in connection with the sale of these securities in the form of guarantees of rates of return and failing to comply with reasonable requests for information from the North Dakota Securities Commissioner.

- b) On 24 June 1998 the Pennsylvania Securities Commission issued a cease and desist order against Tel Com Plus West, LLC; Tel Com Plus East, LLC; Tel Com Plus, Inc.; a company named Satellite Capital Group at the same address as Satellite; and others ordering the respondents to stop selling unregistered securities through persons who were not registered to sell securities and making material omissions of fact necessary in order to made the statements made not misleading, specifically the issuance of the cease and desist order by the North Dakota Securities Commissioner referred to in ¶ 13 (a), *supra*.
- c) On 6 March 1998 the South Dakota Division of Securities of the Department of Commerce & Regulation issued a cease and desist order against Tel Com Plus California, LLC; Tel Com Plus, Inc.; and others ordering the respondents to stop selling unregistered securities in the form of units of limited liability companies through persons and entities that were not registered to sell securities.
- d) On 4 September 1998 the South Dakota Division of Securities of the Department of Commerce & Regulation issued a cease and desist order against Tel Com Plus East, L.L.C.; Tel Com Plus West, L.L.C.; Tel Com Plus, Inc.; and others ordering the respondents 1) to stop selling unregistered securities in the form of units of limited liability companies through persons and entities that were not registered to sell securities, 2) to stop violating the terms of the cease and desist order issued earlier, on 6 March 1998, by the South Dakota securities regulatory authority (*see* ¶ 13(c), *supra*) by continuing to sell these securities in South Dakota and 3) making material omissions in the offer and sale of these units of limited liability companies by failing to have disclosed

the existence of the earlier South Dakota cease and desist order discussed in ¶ 13(c), *supra*, the Pennsylvania cease and desist order discussed in ¶ 13(b), *supra*, and 3) the North Dakota cease and desist order discussed in ¶ 13(a), *supra*.

- e) On 29 July 1998 the Illinois Secretary of State issued a temporary order of prohibition against Tel Com Plus, Inc.; Tel Com Plus East, LLC; and Tel Com Plus West, LLC ordering the respondents to stop selling unregistered securities in the form of units in Tel Com Plus East, LLC, and Tel Com Plus West, LLC by means of offers made on an internet web page advertisement. Because no hearing was requested by any respondent, this order was made permanent on 11 September 1998.
- f) On 5 October 1998 the Iowa Superintendent of Securities issued a cease and desist order against Tel Com Plus East, L.L.C.; Tel Com Plus West, L.L.C.; Tel Com Plus, Inc.; and others ordering the respondents to stop selling unregistered securities in the form of units in Tel Com Plus East, L.L.C, and Tel Com Plus West, L.L.C. and making material omissions of fact in failing to inform investors of the cease and desist orders issued in North Dakota and discussed, *supra*, in ¶ 13(a), *supra*, and South Dakota and discussed, *supra*, in ¶ 13(c).
- g) On 14 December 1998 the staff of the Wisconsin Division of Securities, Department of Financial Institutions, filed a petition for an order of prohibition and revocation against Tel Com Plus, Inc.; Tel Com Plus East, LLC; Tel Com Plus West, LLC; and others, alleging that the respondents had offered and sold unregistered securities in the form of units of ownership in Tel Com East, LLC, and Tel Com West, LLC, through persons who



were not registered to sell securities. It was also alleged that material omissions of fact were made in selling these securities, including the omission of any mention of the order issued in North Dakota and discussed, *supra*, in ¶ 13(a), the order issued in South Dakota and discussed, *supra*, in ¶ 13(c) and an order of permanent injunction issued with the consent of a named respondent in a federal district court in California at the behest of the Securities and Exchange Commission barring him permanently from the offering of penny stock. An order of prohibition and revocation was issued in accordance with this complaint on 17 December 1998.

- h) On 12 May 1999 a final order was entered pursuant to a stipulation and consent agreement between the Florida Department of Banking and Finance and Tel Com Plus, Inc.; Tel Com Plus East, LLC, f/k/a Tel Com Plus Miami, LLC; Tel Com Plus Jacksonville, LLC, f/k/a Tel Com Plus Florida; Tel Com Plus West, LLC, f/k/a Tel Com Plus California, LLC; and United States Telecommunications, Inc. finding that the respondents had sold unregistered securities in the form of units in the named LLC's through persons who were not registered to sell securities. The respondents were ordered to pay a \$50,000 administrative fine and to cease violation of the Florida securities laws in the future, and the respondents agreed to make rescission offers to all Florida residents who had purchased these unregistered securities.
- i) On 19 August 1999 the Iowa Superintendent of Securities issued a cease and desist order against Satellite and Bill Hager, a salesman for Satellite, ordering Satellite to stop selling unregistered securities in the form of units in Tel Com Plus East, L.L.C., and Tel Com

Plus West, L.L.C., through Hager, a person not registered to sell securities, and acting as an unregistered broker-dealer and unlawfully employing an unregistered agent, Hager.

- j) On 12 May 1999 the United States Securities and Exchange Commission (SEC) filed a complaint for injunctive and other relief in the United States District Court for the Middle District of Florida in Tampa, Florida against Physicians Guardian Unit Investment Trust (PGUIT), and others, including Tel Com Plus East, L.L.C., and Tel Com Plus West, L.L.C. *SEC v. Physicians Guardian Unit Investment Trust, et al.*, No. 99-1117-CIV-T-17A (M.D. Fla.) It was alleged in the complaint that these limited liability companies were telephone companies that provided local and long distance telephone service to credit impaired persons east and west of the Mississippi River, respectively. In connection with a fraudulent scheme ascribed to PGUIT, it was alleged that it was not disclosed that another defendant, Charles Polley, had devised another fraudulent scheme, Tel Com Plus. According to the complaint, approximately \$14.5 million was raised from investors nationwide by a number of “boiler room” operations using “boiler room” sales techniques. Other material omissions or misrepresentations were pointed out in the Tel Com Plus scheme, including the suppression of information about various principals of Tel Com Plus and the fraudulent statement that only 3 ½ % of the cash collected would be used for fees and expenses when in reality over 40% of the funds raised were used to pay sales commissions to the network of boiler rooms used to sell the Tel Com Plus offering. As of this date, a temporary restraining order has been obtained against some of the defendants in this suit other than Tel Com Plus and the case remains pending.

## CONCLUSIONS OF LAW

14. Ark. Code Ann. § 23-42-102(15)(A)(xi) (Supp. 1999) in pertinent part defines a security as an investment contract.
15. Ark. Code Ann. § 23-42-501 (Repl. 1994) provides that it is unlawful for any person to offer or sell any security which is not registered or which is not exempt from registration under the terms of the Act.
16. Ark. Code Ann. § 23-42-301(a) (Repl. 1994) prohibits as unlawful the transaction of business as a broker-dealer or agent by any person who is not registered with the Arkansas Securities Department as such.
17. Ark. Code Ann. § 23-42-507(2) (Repl. 1994) provides that it is unlawful for any person in connection with the offer or sale of any security to make any untrue statement or omit to state a material fact necessary in order to make the statements made not misleading in light of the circumstances under which they are made.

## OPINION

18. This matter has been properly brought before the Arkansas Securities Commissioner in accordance with Ark. Code Ann. §§ 23-42-201 and 209 (Repl. 1994).
19. It appears that Virtual will be operated by one manager, Satellite; the investors would play basically a passive role, only voting on the managing entity periodically; the investors will not be involved in the day-to-day operations of Virtual; investors need not have the expertise or experience necessary to run Virtual; and there are too many investors for them to have any

meaningful input into the management of Virtual. Therefore, the investors will be involved in a common enterprise with the expectation of profits to be produced only from the managerial efforts of others, and the ownership units in Virtual, a limited liability company, offered for sale by the respondents herein are investment contracts as defined at Ark. Code Ann. § 23-42-102(15)(A)(xi) (Supp. 1999).

20. The respondents have offered to sell investment contracts in the form of ownership units in a limited liability company, which are securities, without prior registration of those securities in violation of Ark. Code Ann. § 23-42-501 (Repl. 1994).
21. Benson, Hines, Smith, Carter and Satellite offered to sell ownership units in a limited liability company, which are securities, without being registered with the Department as a broker-dealer, an agent of a broker-dealer or an agent of the issuer in violation of Ark. Code Ann. § 23-42-301(a) (Repl. 1994).
22. The failure of the respondents to disclose in the written materials or Benson, Hines, Smith or Carter to disclose in their telephone conversations with Prospect the regulatory action taken against Satellite by the Iowa Superintendent of Securities, discussed in ¶ 13(i), *supra*, was the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 1994).
23. The failure of the respondents to disclose in the written materials or Benson, Hines, Smith or Carter to disclose in their telephone conversations with Prospect the regulatory actions taken against Tel Com Plus in its various forms by state securities regulatory agencies set out in ¶¶ 13(a) through 13(h), *supra*, and by the SEC set out in ¶ 13(j), *supra*, was the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 1994).

24. Hines's statements to Prospect during the 21 January 2000 telephone conversation that Prospect could expect a return on his investment in Virtual of 105% per annum and that Virtual would be so successful that the investors would have options such as going public with an initial public offering or selling out to a major internet company such as Yahoo or America Online without objective, verifiable information supporting such assertions was the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 1994).
25. Hines's assertion in the telephone conversations of 21 January and 1 February 2000 with Prospect that Tel Com Plus had been a great success when in fact it was a fraudulent scheme attacked by many securities regulatory agencies across the country was fraudulent and a misrepresentation of fact in violation of Ark. Code Ann. § 23-42-507(2) (Rep. 1994).
26. Hines's assertion in the 1 February 2000 conversation with Prospect that Tel Com Plus had changed its name to United States Telecommunications, Inc., that it had made one stock offering on a stock exchange using the stock symbol, UST, and that Prospect would be able to purchase stock in this company in the future on an open stock exchange was fraudulent and a misrepresentation of fact in violation of Ark. Code Ann. § 23-42-507(2) (Rep. 1994).
27. Hines's statements to Prospect during the 1 February 2000 conversation conveying the message that there was no risk to this investment, including the statements that there was "virtually no risk of loss" and that Hines did not see "any serious risk of failure" were fraudulent and misrepresentations of fact in violation of Ark. Code Ann. § 23-42-507(2) (Rep. 1994), with no objective, verifiable information supporting such assertions.

28. Pursuant to Ark. Code Ann. § 23-42-209(a)(1) (Supp. 1997), the Arkansas Securities

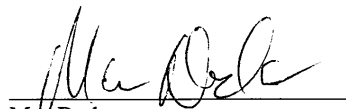
Commissioner can and should order the respondents to immediately cease and desist from the further solicitation and sale of the securities described above, to immediately cease and desist from the collection of additional funds from any current investors and to immediately cease and desist from further violations of the Arkansas Securities Act.

29. This order is in the public interest.

### ORDER

IT IS THEREFORE ORDERED that, SATELLITE PARTNERS, INC., VIRTUAL VEGAS, LLC, RON BENSON, RICHARD HINES, STUART SMITH and RON CARTER, as well as others whose identities are not yet known who are in positions of control of SATELLITE PARTNERS, INC. or VIRTUAL VEGAS, LLC, and who are employed by or otherwise affiliated with SATELLITE PARTNERS, INC. or VIRTUAL VEGAS, LLC or enterprises associated with those business entities, RON BENSON, RICHARD HINES, STUART SMITH or RON CARTER, directly or through other companies, CEASE AND DESIST from any further actions in the State of Arkansas in connection with the offer and sale of the securities described above until such time as the securities are properly registered or exempted from registration pursuant to the Arkansas Securities Act and the persons offering them for sale are properly registered pursuant to the Arkansas Securities Act.

WITNESS MY HAND AND SEAL this 26<sup>th</sup> day of April, 2000.



Mac Dodson  
ARKANSAS SECURITIES COMMISSIONER